

Evolution of Management Thought



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PROFESSOR IN MANAGEMENT**

The Classical Theory of Management



- Scientific Management Theory: By F W Taylor (1856-1915).
- Administrative/Functional/Process Theory: By Henry Fayol (1841-1920).
- Theory of Bureaucracy: By Max Weber (1864-1920).

The Neo-Classical Theory of Management



- Human Relations Theory: By Elton Mayo (1880-1949)
- Behavioural Sciences Theory:
 - 1) Abraham Maslow (1943) Need Hierarchy Theory of Motivation.
 - 2) Douglas McGregor (1906-1964) Theory X & Theory Y
 - 3) Chris Argyris, Rensis Likert etc.

The Modern Management Theories



- Quantitative Management Theory
- Systems Theory
- Contingency or Situational Theory



Frederick W. Taylor (1856- 1915)

- founder of scientific Management
- one of the first people to study the behavior and performance of people at work
- was a manufacturing manager
- became a consultant and taught other managers how to apply his scientific management techniques
- believed that by increasing specialization and the division of labor, the production process will be more efficient.

Scientific Management

- The systematic study of relationships between people and tasks for the purpose of redesigning the work process to increase efficiency.

Method of Scientific Management



- Systematic study of relationships between people and tasks in order to find one best way of doing a task.
- Primary focus: Workers and Tasks (More efficiency and maximum output)

Principles of Scientific Management



The principles of Scientific Management imply the application of science to management. It is based on 4 basic principles:

- Replacing Rule of Thumb with Science: Each task must be scientifically designed, so that it can replace the old, rule-of-thumb methods.
- Scientific selection, training and development of workmen : Workers must be scientifically selected and trained, so that they can be more productive in their jobs.
- Mutual co-operation: Developing friendly co-operation between the workers and managers with equal division of work and responsibility between them.
- Maximize output: Continuous increase in production for maximum output. (increasing remuneration for fast and high-quality work)

Elements and Tools of Scientific Management



- Scientific Task planning
- Time studies and Motion studies
- Standardization of tools and implements.
- Standardization of work methods
- Functional or specialized supervision
- The use of slide-rules, similar time-saving devices, and instruction cards for workmen.
- Task allocation and large bonus for successful performance
- Use of the 'differential rate' systems for classifying products and
- Implementing routing system, and modern costing system, etc
- Systematic selection of workers and specialize them in specific jobs through suitable training to increase efficiency.

Causes behind Scientific Management



- Rule of thumb methods of working – inefficiency of workers
- Using different techniques for doing the same job
- Prone to 'taking it easy' on the job
- No effective work standards
- No incentive to produce more
- Workers were afraid to work more, in fear of less payment or losing the job
- No interpersonal relationship
- Unsuitable matching between the jobs and the workers
- Ineffective supervision

Evaluation of Scientific Management



- Conservation and saving of energy in each task.
- Time saving.
- Better utilization of resources
- Higher rate of production and higher profits.
- Increased wages.
- Improvement in workers efficiency by scientific selection and development of workers.
- Specialisation and division of labour has brought industrial revolution in many developing nations.

Limitations of Taylor's Scientific Management



- More concerned with the problems at the operating level but did not emphasize the management of an organization
- More relevant from engineering point of view but not from management point of view
- While Taylor's scientific management theory proved successful in the simple industrialized companies at the turn of the century, it has not fared well in modern companies.
- The philosophy of "production first, people second" has left a legacy of declining production and quality, dissatisfaction with work, loss of pride in workmanship, and a near complete loss of organizational pride
- Taylor's insistence on close supervision flies in the face of all contemporary organizational research demonstrating close supervision is an authoritarian approach and counter productive.
- Additionally, the piece rate system all too often is either inapplicable in today's computerized assembly lines or is compromised by management continually raising the quota.
- No consideration on human behaviour at work. Workers were to be used as machines

Fayol's Administrative/ Functional/Process Theory of Management (1841-1925)



- At the time when F W Taylor was developing the principles of scientific management in United States, Henri Fayol, was revolutionising managerial thinking in France. Trained as a mining engineer, Fayol made his mark as an industrialist and developed the administrative theory. He emphasised the process of managing an organisation from the top managerial perspective. Most writers acknowledge him as the founder of classical management theory, not because, he was the first to investigate managerial behaviour, but because, he was the first to systematise it. Fayol believed that sound managerial practice falls in to certain patterns that can be identified and analysed. Before Fayol it was generally believed that “managers are born, not made.” Fayol insisted , however that management was a skill like any other – one that could be taught, once its basic principles were understood. This approach focuses on the principles that can be used by managers to coordinate the internal activities of organisations.

Fayol's classification of Business Operations



- Technical (relating to production and manufacturing of goods)
- Commercial (buying, selling and exchange of goods)
- Financial (arrangement of capital and its optimum use)
- Security (protection of property and persons)
- Accounting (keeping financial records)
- Managerial (planning, organising, commanding, co-ordinating, controlling)

Managerial Qualities or Skills



Fayol emphasised the need for managers to acquire certain unique skills in order to do their work properly. According to him, there are six types of skills or qualities that a manager requires, which are :

- Physical (sound health and vigour)
- Mental (ability to understand, learn, apply judgement and adapt to different situations)
- Moral (energy, firmness, initiative, loyalty, tact and dignity)
- Educational (general acquaintance with matters not belonging exclusively to the function performed)
- Technical (specialised knowledge relating to one's area of specialisation, especially about machines, work processes etc.)
- Experience (relating to the work carried out)

Management Functions or Elements



Fayol holds that management should be viewed as a process consisting of five elements. He has regarded these elements as functions of management. These are :

- Planning: Devising a course of action that will help the organisation meet its objective.
- Organising: Mobilising the material and human resources of the organisation to put the plan in to effect.
- Commanding: Giving directions to the employees so that they perform the required tasks.
- Co-ordinating: Making sure that the resources and activities of the organisation are working harmoniously to achieve the desired goal.
- Controlling: Monitoring the plans to ensure that they are being carried out properly.

Fayol's Principles of Management



- At the operational level, Fayol asserted that managers should apply fourteen principles. According to him, these principles can be applied in all types, functions, levels and sizes of organisations. These are the universal truth and establishes cause-effect relationship. These are not rigid but flexible. These principles are:

Fayol's Administrative Theory



- Fourteen Principles of Management (Tools for Accomplishing Objectives)
 - Division of work - limited set of tasks
 - Authority and Responsibility - right to give orders
 - Discipline - agreements and sanctions
 - Unity of Command - only one supervisor
 - Unity of Direction - one manager per set of activities
 - Subordination of Individual Interest to General Interest
 - Remuneration of Personnel - fair price for services
 - Centralization - reduce importance of subordinate's role
 - Scalar Chain - Fayol's bridge
 - Order - effective and efficient operations
 - Equity - kindness and justice
 - Stability of Tenure of Personnel - sufficient time for familiarity
 - Initiative - managers should rely on workers' initiative
 - Esprit de corps - “union is strength” “loyal members”

Limitations of Fayol's Administrative Theory



- Fayol's administrative theory is criticised on the following grounds:
- Lack of empirical evidence
- Neglect of human factor (their emotion, attitude, creativity etc)
- More emphasis on management skills and functions but not their behaviour
- His principles may not be applicable in all situations.
- It was more appropriate for the past than for the present.

Weber's Theory of Bureaucracy



- Max Weber (1864-1920)
 - German Sociologist
 - Theory of Social and Economic Organization (1947)
 - Principles and Elements of Management - describe an ideal or pure form of organizational structure (general policy and specific commands)
 - PRIMARY FOCUS: Organizational Structure
 - Worker should respect the “right” of managers to direct activities dictated by organizational rules and procedures

Weber's Theory of Bureaucracy



- Bureaucracy allows for the optimal form of authority - “rational authority”
- Three types of Legitimate Authority
 - Traditional Authority - past customs; personal loyalty
 - Charismatic Authority - personal trust in character and skills
 - Rational Authority - rational application of rules or laws

Weber's Theory of Bureaucracy



- Tenets of Bureaucracy
 - Rules
 - Specified sphere of competence
 - Hierarchy
 - Specialized Training
 - Workers do not own technology
 - No entitlement to “official position” by incumbent
 - Everything written down
 - Maintenance of “ideal type” - bureaucracy

Weber's Theory of Bureaucracy



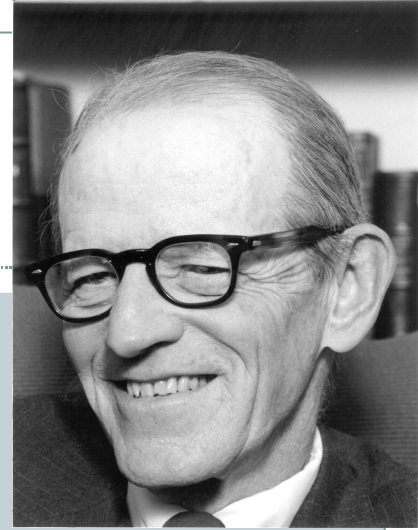
- Concerned with describing the ideal structure of an organization
- Cornerstone: existence of written rules
- *The rational application of written rules ensures the promotion of legitimate authority and the effective and efficient functioning of the organization.*

Weber's Theory of Bureaucracy



- Application in the Modern Workplace
 - Large organizations guided by countless rules are bureaucracies
 - Linked with inefficient, slow-moving organizations
 - Organizations have several characteristics of bureaucracies

Human Relations Theory



- Elton Mayo
- Psychologist and Sociologist
- 12/26/1880 – 9/7/1949
- Active Australian Psychologist
- Moved to the United States to participate in the Philadelphia post opportunity.

“The Hawthorne Studies”



- “The Hawthorne Studies”
 - Hawthorne Works of Western Electric Company
 - 1924 - Chicago
 - Research focus: Relation of quality and quantity of illumination to efficiency in industry
 - Four Important Studies



“The Hawthorne Studies”

- **Illumination Study** (November 1924)
 - Designed to test the effect of lighting intensity on worker productivity
 - Heuristic value: influence of human relations on work behavior
- **Relay Assembly Test Room Study** (1927-1932)
 - Assembly of telephone relays (35 parts - 4 machine screws)
 - Production and satisfaction increased regardless of IV manipulation
 - Workers' increased production and satisfaction related to supervisory practices
 - Human interrelationships are important contributing factors to worker productivity
 - Bottom Line: Supervisory practices increase employee morale AND productivity
- **Interviewing Program** (1928-1930)
 - Investigate connection between supervisory practices and employee morale
 - Employees expressed their ideas and feelings (e.g., likes and dislikes)
 - Process more important than actual results
- **Bank Wiring Room Observation Study** (November 1931 - May 1932)
 - Social groups can influence production and individual work behavior
 - RQ: How is social control manifested on the shop floor?
 - Informal organization constrains employee behavior within formal organizational structure

Hawthorne Studies - Implications

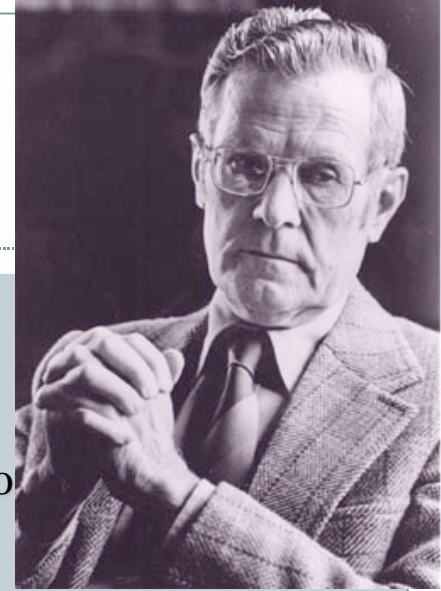
- **Illumination Study** (November 1924)
 - The mere practice of observing people's behavior tends to alter their behavior (Hawthorne Effect)
- **Relay Assembly Test Room Study** (1927-1932)
 - Relationships between workers and their supervisors are powerful
 - Human interrelationships increase the amount and quality of worker participation in decision making
- **Interviewing Program** (1928-1930)
 - Demonstrated powerful influence of upward communication
 - Workers were asked for opinions, told they mattered, and positive attitudes toward company increased
- **Bank Wiring Room Observation Study** (November 1931 - May 1932)
 - Led future theorists to account for the existence of informal communication
- **Taken together, these studies helped to document the powerful nature of social relations in the workplace and moved managers more toward the interpersonal aspects of organizing.**

Hawthorne Studies - Criticisms

- **Not conducted with the appropriate scientific rigor necessary**
- **Too few subjects (N=5)**
- **No control groups**
- **Subjects replaced with more “cooperative” participants**

- **WORTHLESS**
- **GROSS ERRORS**
- **INCOMPETENCE**

The Emergence of Communication



- **Chester Barnard**

- Considered a bridge between classical and human relations theories
- *The Functions of the Executive* (1938)
- Argues for . . .
 - strict lines of communication - classical theory
 - a “human-based system of organization”
 - The potential of every worker and the centrality of communication to the organizing process
- Six Issues Relevant to Organizational Communication
 - Formal vs. Informal Organization
 - Cooperation
 - Communication
 - Incentives
 - Authority
 - Zone of Indifference

Six Issues Relevant to Organizational Communication



- **Formal vs. Informal Organization**
 - **Formal Organization** - a system of consciously coordinated activities or forces of two or more persons. (definite, structured, common purpose)
 - Persons are able to communicate with one another
 - Willing to contribute action
 - To accomplish a common purpose
 - **Informal Organization** - based on myriad interactions that take place throughout an organization's history.
 - Indefinite
 - Structureless
 - No definite subdivisions of personnel
 - Results: customs, mores, folklore, institutions, social norms, ideals -- may lead to formal organization
- **Cooperation**
 - Necessary component of formal organization
 - The expression of the net satisfactions or dissatisfactions experienced or anticipated by each individual in comparison with those experienced or anticipated through alternative opportunities
- **Communication**
 - Critical to cooperation
 - The most universal form of human cooperation, and perhaps the most complex, is speech
 - The most likely reason for the success of cooperation and the reason for its failure
 - System of communication: known, formal channels which are as direct (short) as possible, where the complete line of communication is used, the supervisory heads must be competent, the line of communication should not be interrupted, and every communication should be authenticated.
 - Barnard's system lacks relationship formation and maintenance mechanisms

Six Issues Relevant to Organizational Communication

- Incentives
 - Should be available
 - Not discussed in detail
- Authority
 - Associated with securing cooperation for organizational members
 - The interrelationship among the originator of the communication, the communication itself, and the receiver
 - Authority of position OVER Authority of Leadership (knowledge & ability).
- Zone of Indifference - orders followed
 - Marks the boundaries of what employees will consider doing without question, based on expectations developed on entering the organization.

Barnard drew attention away from formal organizational structures toward communication, cooperation, and the informal organization. His work was integrated by other theorists in the human relations movement.

Theory X & Y



- McGregor's Theory X and Theory Y
 - According to Theory X, managers believe workers
 - dislike work
 - lack ambition
 - are irresponsible
 - are resistant to change
 - prefer to be led





- McGregor's Theory X and Theory Y
 - According to Theory Y, managers believe workers
 - are willing to work
 - are capable of self control
 - accept responsibility
 - are imaginative and creative
 - self-directed



- McGregor's Theory X and Theory Y
 - Managers create self-fulfilling prophecies
 - Theory X managers creative dependent and reluctant workers
 - Theory Y managers creates workers who perform as expected with initiative and high performance
 - central to notions of empowerment

MCGREGOR'S THEORY X & Y

Theory X

Work avoiding

Need to control

Avoid responsibility

Workers seek security

Theory Y

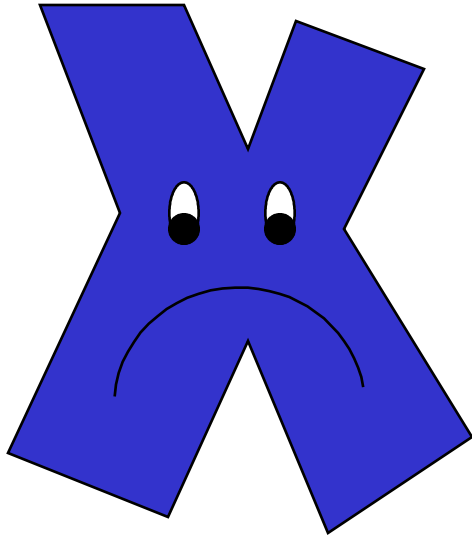
Work is natural

Capable of self-direction

Seek responsibility

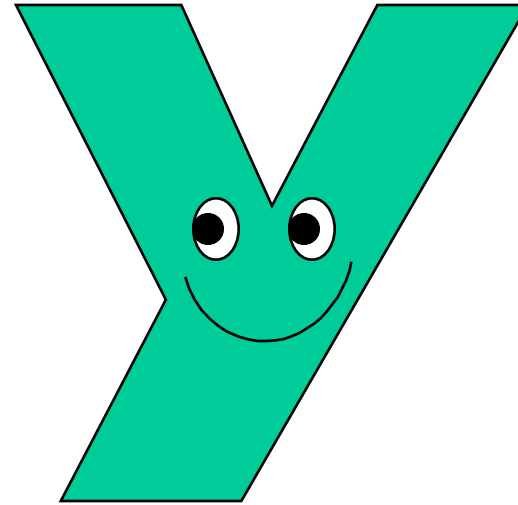
Can make good decisions

ASSUMPTIONS OF THEORY X VERSUS THEORY Y MANAGERS



EMPLOYEES:

**Dislike/avoid work
Require coercion
Shun responsibility
Have little ambition
Seek security**



EMPLOYEES:

**Naturally expend effort
Will exercise self-discretion
Accept and seek responsibility
Have creative capacity
Have high level needs**

Quantitative Management Theory



- During World War II, mathematicians, physicists, and other scientists joined together to solve military problems. The quantitative school of management is a result of the research conducted during World War II. The quantitative approach to management involves the use of quantitative techniques, such as statistics, information models, and computer simulations, to improve decision making. This school consists of several branches, described in the following sections.

Quantitative Theory



- It is also known as **Operations Research Theory, Decision Theory** or **Management Science Theory**.
- Initiated by P M S Blackett, a Nobel laureate of the university of Manchester.
- Developed through an Operations Research team (Quantitative specialists) consisting of different streams like Mathematics, Physics, Statistics, Psychology, Engineering and Economics etc.
- It involves knowledge of inter-disciplinary research team to provide optimum operating solutions.
- Quantitative management theory focuses on the use of Mathematics, Statistics and Information aids to support managerial decision-making and organisational effectiveness.

Branches of Quantitative Management



- Management Science
- Operations Management
- Management Information System

Management Science



❖ It is an approach to increase decision-effectiveness through the use of mathematical models & statistical methods such as:

- Linear programming
- PERT
- CPM
- Game theory
- Probability
- Sampling theory
- Capital budgeting
- Financial structure theory & Symbols

Management Science



- ❖ It emphasises management as a body of quantitative tools and methodologies.
- ❖ It helps in making the complex decisions related to operations and productions.
- ❖ It adopts a multi-disciplinary approach to solve organisational problems.
- ❖ Computers are extensively used to analyse a variety of complex data and present it into simplified version.

Operations Management



- ❖ It is responsible for managing the production and delivery of an organization's products and services.
- ❖ It includes fields such as inventory management, production planning, design and location , work scheduling and quality assurance.
- ❖ It is applied to various manufacturing settings such as designing the production process, purchasing raw materials , scheduling employees to work and storing and shipping the final products.

Management Information System(MIS)



- ❖ MIS is the field of management that focuses on designing and implementing computer-based information systems for use by management.
- ❖ Large amount of information is quickly processed to help managers in making useful business decisions.

Evaluation of Quantitative Theory



- Easy to analyse a problem
- Facilitates disciplined thinking
- Helps to derive precise and accurate results through statistical methods
- Useful in the areas of planning and control
- Decisions are based on data and logic rather than intuition and judgement
- Use of computers help to make the decisions fast

Limitations of Quantitative Theory

- 
- All the managerial problems can not be solved by mathematical models.
 - Human behaviour can not be predicted through mathematical equations
 - Its applications are limited

Systems Theory



System:

- A System means a set of inter-related and inter-dependent parts (sub-systems/departments) functioning as a whole.
- Each part may have various sub-parts.
- These parts are mutually related to each other.
- It is not a mere totality or sum of the sub-parts. It is an inter-related concept.
- Usually a change in one part would affect the whole system. (for example, throwing-off a lazy worker may invite trouble from unions and even lead to an unexpected strike)

Systems Theory



- A system is an interrelated set of elements functioning as a whole. An organization as a system is composed of four elements:
- Inputs — material or human resources
- Transformation processes — technological and managerial processes
- Outputs — products or services
- Feedback — reactions from the environment

Systems Theory



- The systems theory encourages managers to look at the organization from a broader perspective.
- The decisions taken by the managers have wide range of impacts, which affects the internal as well as external environment in a significant way.
- So, when a manager takes a decision, he must understand and anticipate the after effect of the entire organisation and the environment.
- He must ensure that all parts of the organisation are coordinated internally so that the goals can be achieved.
- He must understand the features of the systems concept.

Systems Theory



An organization as a system is composed of four elements:

- **Inputs** — material and human resources
- **Transformation processes** — technological and managerial processes
- **Outputs** — products or services
- **Feedback** — reactions from the environment

Components of a System



- Sub-system
- Synergy
- Open and Closed system
- System Boundary
- Flow
- Feedback

Components of a System



Sub-systems:

The parts that make up the whole of a system are called sub-systems. Each system may, in turn, be a sub-system of a still larger whole. Thus, a department may be a sub-system of a plant, which may be a sub-system of a company, which may be a sub-system of an industry, which may be a sub-system of a national economy and which may be a sub-system of the world system.

There are five sub-systems within an organisation:

- 1) goal sub-system (individual and group goals);
- (2) technical sub-system (tools, equipments, employee skills and knowledge);
- (3) structural sub-system (authority layers and relationships);
- (4) managerial sub-system;
- (5) psychological & social sub-system (psychological and social factors influencing people at work).

Components of a System



Synergy:

- Synergy means that the whole is greater than the sum of its parts.
- For example, a watch that is disassembled has the same number of parts as one that is properly assembled. However the assembled watch keeps time (gives output as a result of synergy) but the disassembled watch lacks it.
- Synergy represents that when all of the elements of an organisation function together, the output is optimal.

Components of a System



Open and Closed System:

- If a system interacts with its environment, it is considered an **open system**.
- An organisation that interacts little with its external environment and therefore receives little feedback from it is called **closed system**.

System boundary:

- Each system has a boundary that separates it from its environment.
- In a closed system, the system boundary is rigid;
- In an open system the boundary is more flexible.

Components of a System



Flow:

- An open system has flows of inputs (information, material and energy) from its environment which are processed within the system and converted into outputs (goods and services) and exited from the system.

Feedback:

- It is the key to system controls. As operations of the system proceed, information is fed back to appropriate people or to a computer so that the work can be assessed, and if necessary, corrected. (For example, customer complaints may demand attention to product improvement, customer service, etc.).

Evaluation of Systems Theory



- It analyses the system at different levels and interrelates and integrates it in to a unified set of direction.
- It provides a framework for effective interaction of different parts of the organisation for attainment of its goals.
- It considers the impact of environment on the organisation and vice versa.
- With a systems perspective managers can more easily maintain a balance between the needs of the various parts of the organisation and goals of the whole organisation.
- It provides a broader framework to solve managerial problems.

Limitations of Systems Theory



- **Theoretical approach.** It is only a theoretical approach to management, not much practical effect.
- **Lack of universality.** It lacks universality and can not be applied to all organisations.
- **Situational variables.** It does not attempt to identify situational differences and factors.

MBO – Strategic Approach



- Peter Ferdinand Drucker lived from November 19, 1909-November 11, 2005.
- He was a writer, consultant, economist and widely considered to be the father of “Modern Management”.
- He wrote about 39 books and countless popular articles which explored how humans are organized across all sectors of society-in business, government and non profit world.

Contributions of Drucker

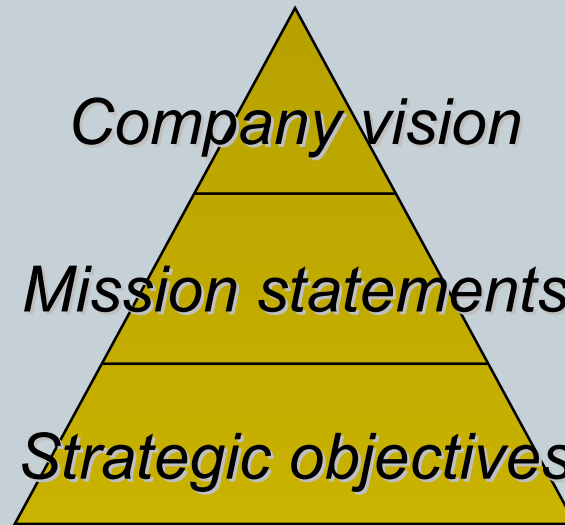


- Drucker introduced the idea of decentralization-1940.
- He was the first to assert that workers should be treated as assets and not as liabilities to be eliminated. He originated the view of the corporation as a human community-1950.
- He argued for the importance of substance over style, for institutionalized practices over charismatic, cult leaders-1960.
- He wrote about the contribution of knowledge workers-1970.
- Drucker's work at General Electric-1980.
- Drucker's primary contribution is not a single idea, but rather an entire body of work that has one gigantic advantage: nearly all of it is essentially right. Drucker has an uncanny ability to develop insights about the workings of the social world, and to later be proved right by history

Relevance of Peter Drucker Theories



Management by objective (MBO)



Hierarchy of Goals

Drucker and Marketing



- His most famous book is “The Practice of Management,” published in 1954.
- Three questions that every company seeking to establish a brand must ask itself:
 - “What is our business?”
 - “Who is our customer?”
 - “What does our customer consider valuable?”

Three Roles of Management

- Managing a Business
- Managing Managers
- Managing Workers and Work

The Work of the Manager

- Set Objectives
- Organize
- Motivate and Communicate
- Measurement
- Develop People

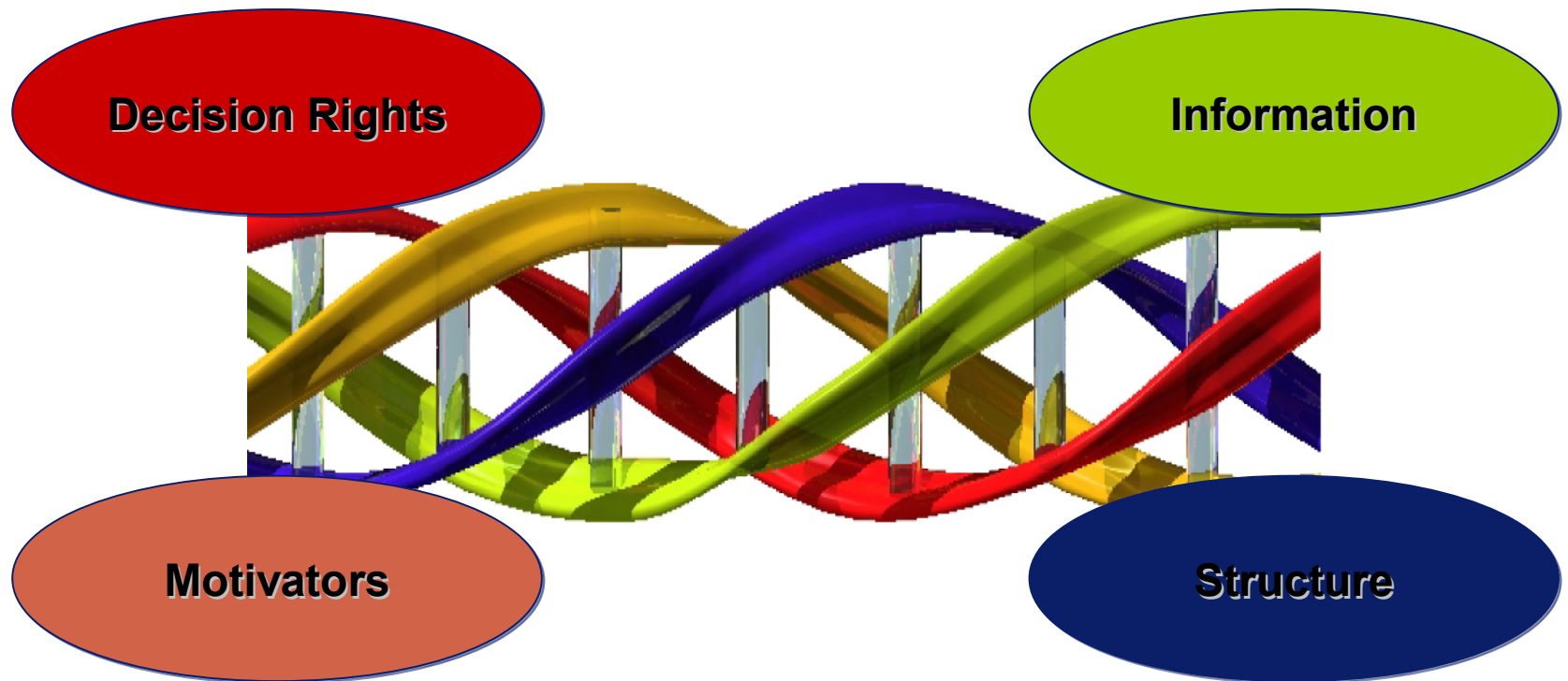
5 Steps in Making Decisions

- Define the Problem
- Analyze the Problem
- Develop Alternative Solutions
- Find the Best Solution
- Implement the Decision

The Manager of Tomorrow

1. Must manage by objectives
2. Must take more risks and have a longer time frame
3. Must be able to make strategic decisions
4. Must be able to build an integrated team
5. Must be able to communicate fast and clear
6. Must see the business as whole
7. Must relate to total environment

Learning org- Org DNA



HBS review as "one of top Business Ideas in 2005"

Michael E. Porter's New Approach

- Harvard Business School
- 1980: The Five Competitive Forces
- *The Competitive Advantage of Nations*, 1990.
- First “strategist,” a field that is, basically, straight economics
- Enormous popularity



The Five Competitive Forces

- **the threat of new entrants,**
- **the bargaining power of customers,**
- **the bargaining power of suppliers,**
- **the threat of substitute products or services, and**
- **the jockeying among current contestants.**

Porter and Strategy Today

- Strategy has now become a regular field in management schools. It is mostly a haven for economists.
- Brickley, Smith and Zimmerman devote Chapter 8 to the “Economics of Strategy: Creating and Capturing Value.”
- They address Value Creation, which is finding an approach, a cost-reduction technique, or some manner permitting the firm to compete effectively.

Establishing a Strategic Agenda

- To establish a strategic agenda for dealing with these contending currents and to grow despite them, a company must understand how they work in it's own industry and particular situation.
- The essence of strategy formulation is coping with competition.
- Different forces take on prominence, of course, in shaping competition in each industry.
- Every industry has an underlying structure, or a set of fundamental economic and technical characteristics, whether an industry is dealing in services or selling products.

Threat of Entry

- New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources.
- There are **FIVE major sources of barriers** to entry:
 - Economies of scale
 - Product differentiation
 - Cost disadvantages independent of size
 - Access to distribution channels
 - Government policy

Powerful Suppliers and Buyers

- The power of each important supplier or buyer group depends on a number of characteristics of its market situation and on the relative importance of its sales or purchases to the industry compared with its overall business.
- A company's choice of suppliers to buy from or buyer groups to sell to should be viewed as a crucial strategic decision. Most common is the situation of a company being able to choose whom it will sell to, in other words, buyer selection.

Substitute Products

- Substitute products place a ceiling on prices a competing firm can charge, limiting the potential of an industry. Substitutes not only limit profits in normal times; they also reduce the bonanza an industry can reap in boom times.
- Substitutes often come rapidly into play if some development increases competition in their industries and causes price reduction or performance improvement.

Jockeying for Position

Intense rivalry is related to the presence of a number of factors:

- Competitors are numerous or are roughly equal in size and power.
- Industry growth is slow, precipitating fights for market share that involve expansion-minded members.
- Fixed costs are high or the product is perishable, creating strong temptation to cut prices.
- Capacity is normally augmented in large increments.

Formulation of Strategy

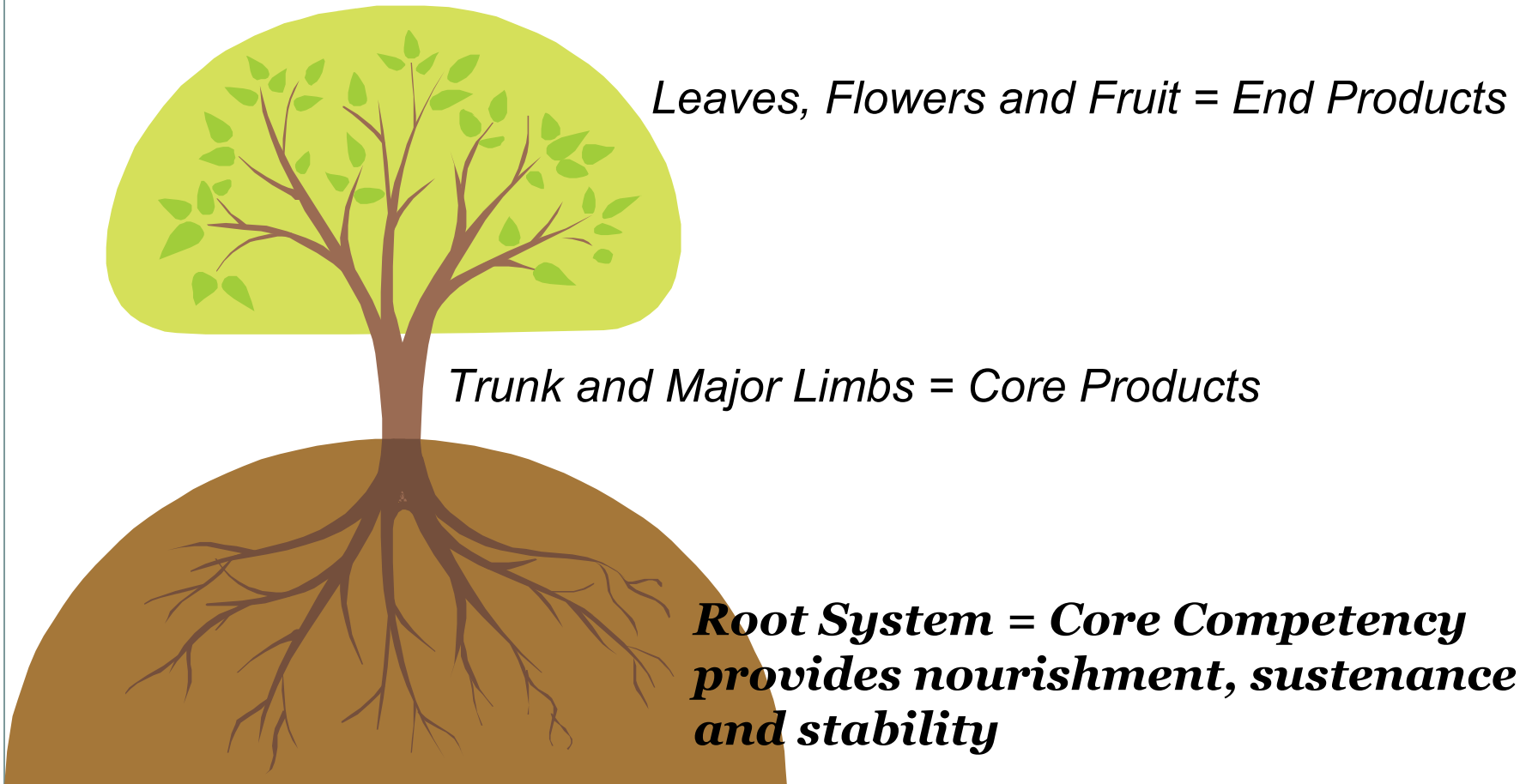
- 1. Positioning the company
- 1. Influencing the balance
- 1. Exploiting industry change
- 1. Recognizing Multifaceted Rivalry

CORE COMPETENCY Approach



- The collective learning in the organization
 - ..especially how to coordinate diverse production skills and integrate multiples streams of technologies (pg. 82)
- Concept in Management Theory
 - originally advocated by C.K. Prahalad, and Gary Hamel, 1990

*Think of a diversified corporation
as a large tree*



SONY

make.believe

Miniaturization
Core Competency

Microprocessors
Core Product



Smartphones



Laptops



Gaming



TV's



Cameras

End Products

QUALITIES OF CORE COMPETENCY

- No more than 5 or 6 qualities
- Harmonizing technology, and expertise
- Communication and involvement with a deep commitment to working across organizational boundaries

IDENTIFYING CORE COMPETENCIES (3 Tests)

- Provides potential access to a wide variety of markets
 - Example: Competence in displays → Access to markets in:
 - Calculators, TV sets, electronic monitors, automobile dashboards
- Makes a significant contribution to the perceived customer benefits of the end product
- Difficult for competitors to imitate

Competence → Adhesives

The screenshot shows the Shop3M website interface. At the top, there is a search bar with the text "Search | Keywords, part numbers, etc" and a magnifying glass icon. Below the search bar, the "3M" logo is prominently displayed on the left, and "United States" is on the right. The main navigation bar includes "Shop3M" and several links: "Shop By Product Category", "Just Arrived", "On Sale", "Special Offers", and "About Shop3M".

The main promotional banner features the headline "Guess who reinvented the industry again?" followed by "3M™ Low VOC Spray Adhesives". Below this, a paragraph reads: "Believe it. High on performance – low on VOC's. From papers, laminates, fabrics and metals, create a bond you can rely on from the brand you can trust." To the right of the text is a red starburst graphic that says "Save 10%". Below the starburst are four cans of 3M Low VOC Spray Adhesives. At the bottom right of the banner is a red "Buy Now" button.

Below the main banner, there are two smaller promotional boxes. The left box is titled "All Slip-Resistant Tapes and Treads on Sale!" and includes the text "Get 20% off all slip-resistant tapes and treads from fine resilient general purpose treads." with a "Shop Now >" link. The right box is titled "Get \$10 Back by" and includes the text "when you buy \$20 or of any 3M™ or Post-it® Labels. Shop Now >".

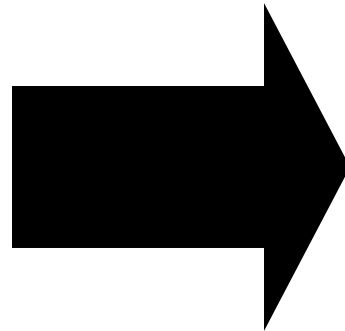
BENEFITS OF CORE COMPETENCY

- Basis for global leadership
- Source of competitive advantage
 - Consolidate corporate wide technologies and production skills
- Foundation to respond quickly to emerging markets
- Ability to invent new markets and deliver customer value

FROM CORE COMPETENCY TO CORE PRODUCT

Core Competency

- Collective Learning
- Management Theory Concept
- Allows access to wide market
- Communication and involvement



Core Product

- Products closely related to core competencies
- Integrated into end products
- Major products manufactured by the company

MANUFACTURING SHARE VS. BRAND SHARE

- World Manufacturing Share

- Percentage of total world production of a specific core product

- Brand Share

- Percentage of total world production, of a specific core product, sold within a single brand

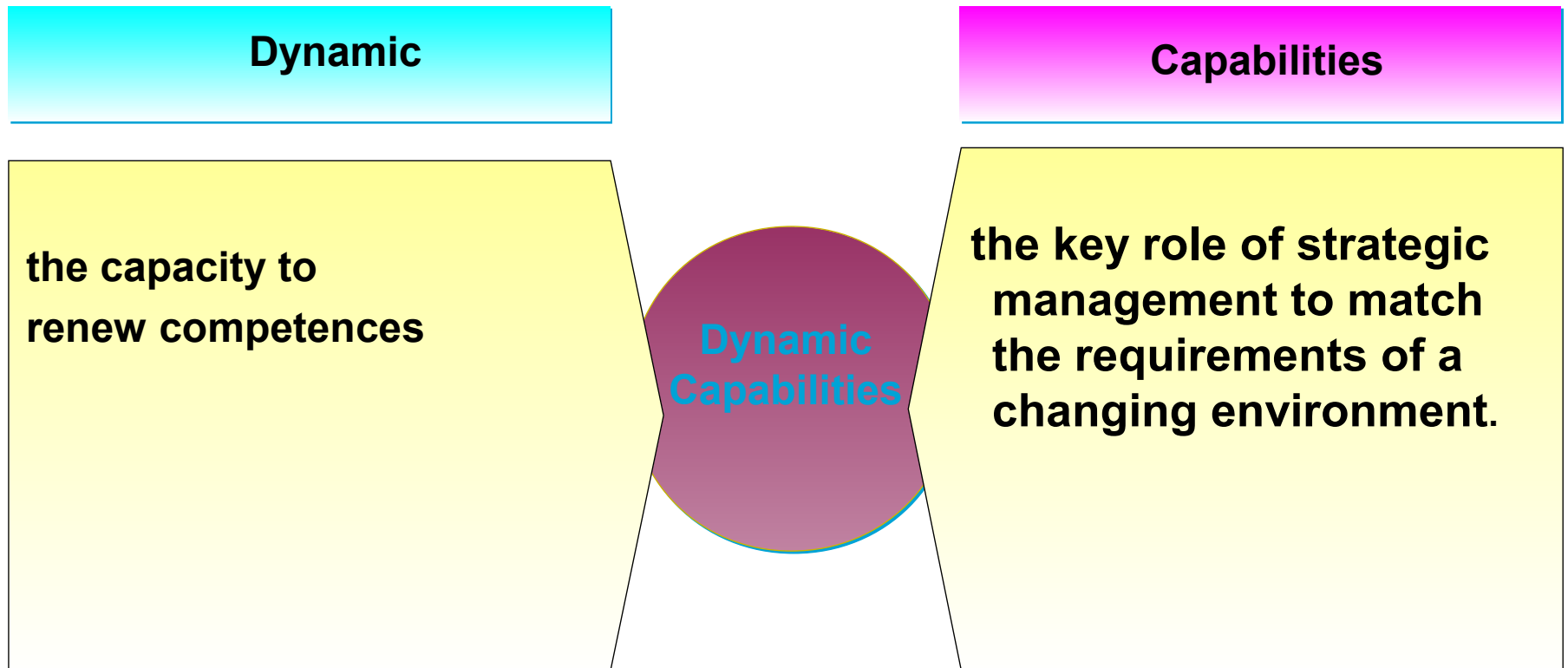
The Canon logo is displayed in a bold, red, sans-serif font.

Imaging across networks

FROM CORE COMPETENCE TO STRATEGIC BUSINESS UNIT (SBU)



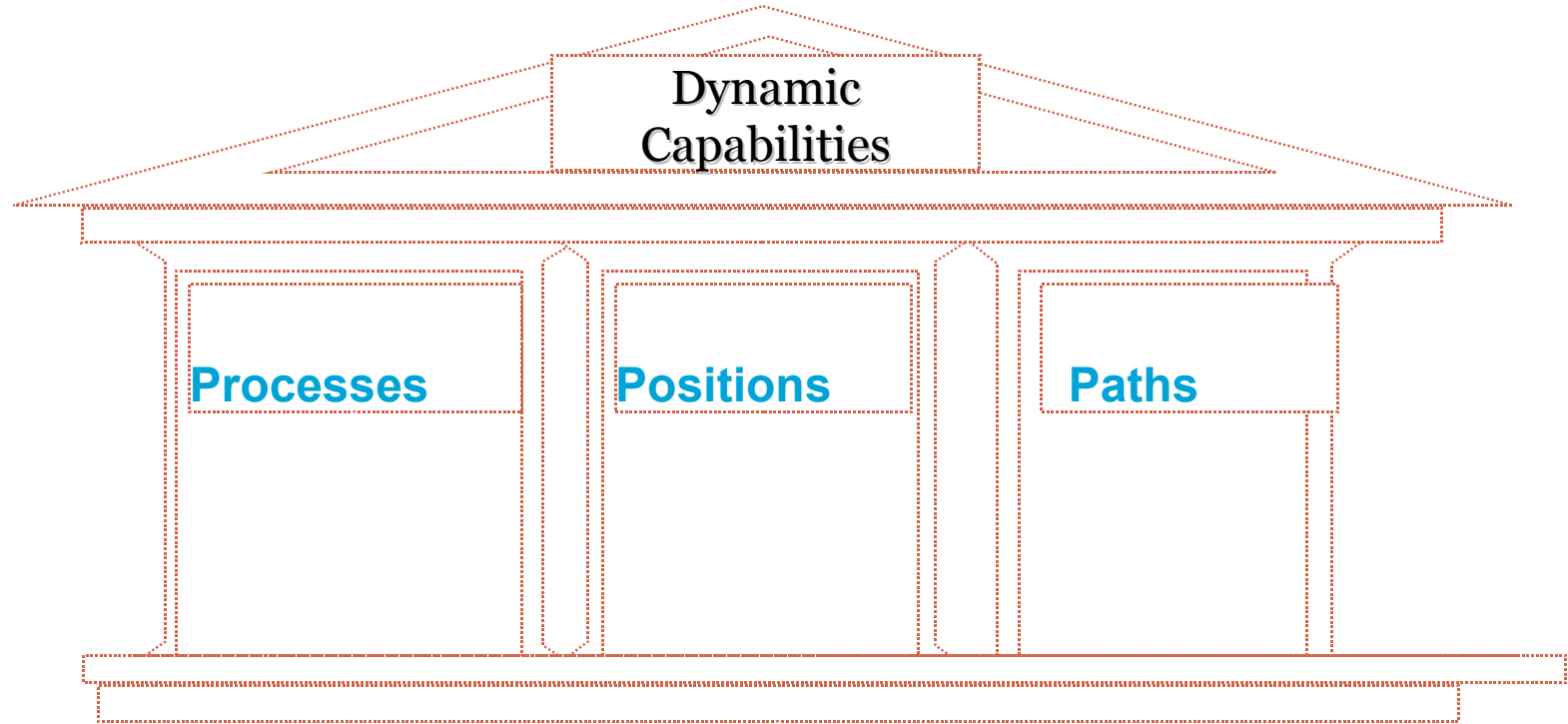
What is Dynamic capabilities?



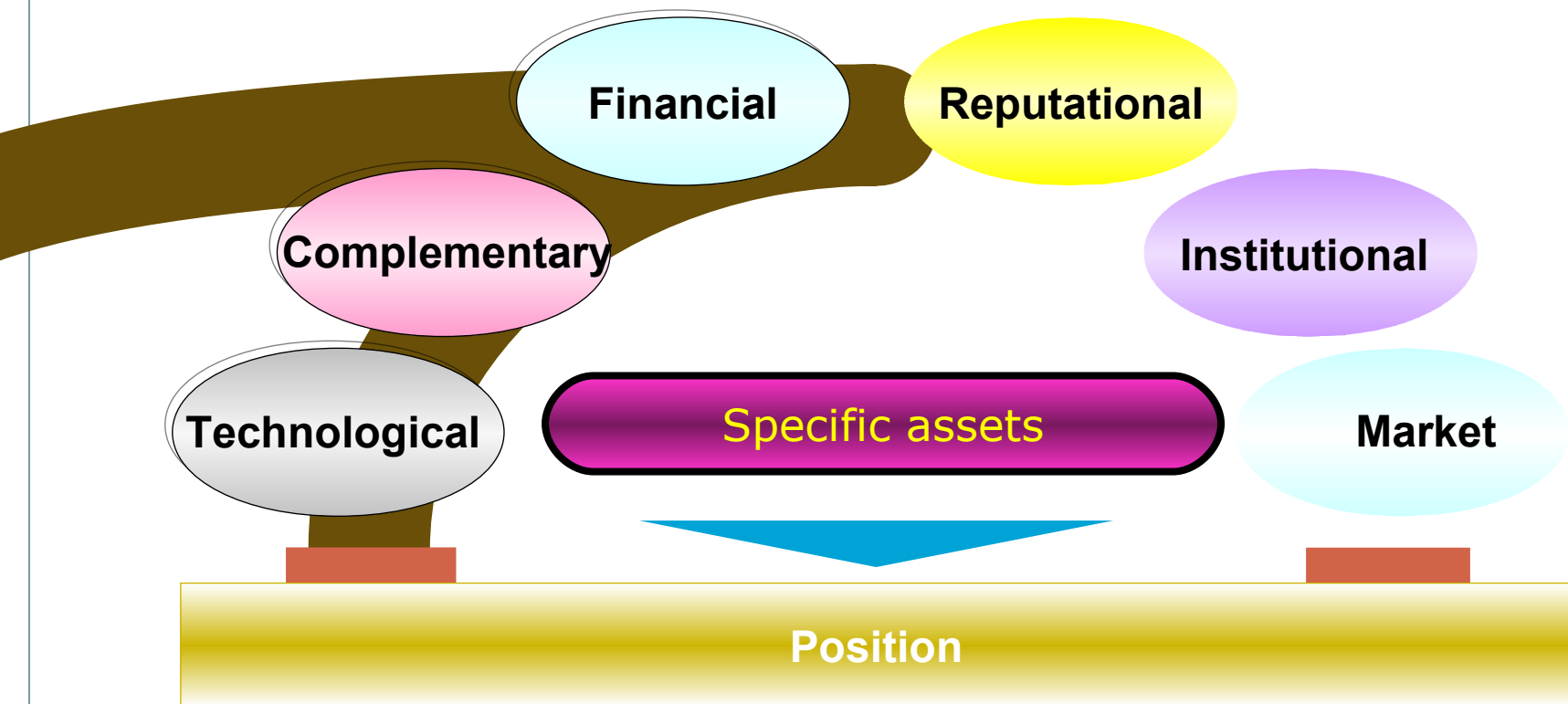
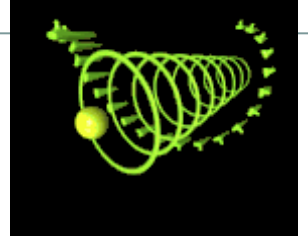
What is Dynamic capabilities? (continue)

- Dynamic capabilities is the firm's ability to **integrate**, **build**, and **reconfigure** internal and external competences to address rapidly changing environment.

The essence of Dynamic capabilities



Position



McKinsey 7-S framework model



THE 7-S FRAMEWORK OF MCKINSEY IS A VALUE BASED MANAGEMENT (VBM) MODEL THAT DESCRIBES HOW ONE CAN HOLISTICALLY AND EFFECTIVELY ORGANIZE A COMPANY. TOGETHER THESE FACTORS DETERMINE THE WAY IN WHICH A CORPORATION OPERATES.

Shared Value



- The interconnecting center of McKinsey's model is: Shared Values. What does the organization stand for and what it believes in. Central beliefs and attitudes.

Strategy



- Plans for the allocation of a firm's scarce resources, over time, to reach identified goals. Environment, competition, customers.

Structure



- The way the organization's units relate to each other: centralized, functional divisions (top-down); decentralized (the trend in larger organizations); matrix, network, holding, etc.

System



- The procedures, processes and routines that characterize how important work is to be done: financial systems; hiring, promotion and performance appraisal systems; information systems.

Staff



- Numbers and types of personnel within the organization.

Style



- Cultural style of the organization and how key managers behave in achieving the organization's goals.
Management Styles.

Skill



- Distinctive capabilities of personnel or of the organization as a whole.
Core Competences.

Contingency Theory



- It is also known as Situational theory.
- The classical, behavioural, and quantitative approaches are considered Contingency theory states that there is no “one best way” to manage organisations universally in all situations.
- The appropriate management actions and approaches depend on/ contingent to the situations.
- Managers with a contingency view use a flexible approach, draw on a variety of theories and experiences, and evaluate many options as they solve problems.
- Each organisation is unique, each problem is unique, each decision is unique and, hence, the way of tackling every situation is also unique

Contingency Theory

- Contingency theory is an extension of Systems theory.
- It believes that organisation is an open system which continuously interacts with its external environment.
- While the internal environment consists of sub-systems or departments of the organisation, and the external environment consists of social, political, economic, legal, and technological factors that affects its working.
- According to this theory, managers take note of both these environments to solve various business problems.

Contingency Theory



- Historically, contingency theory has sought to formulate broad generalizations about the formal structures that are typically associated with or best fit the use of different technologies.
- The perspective originated with the work of Joan Woodward(1958), who argued that technologies directly determine differences in such organizational attributes as span of control, centralization of authority, and the formalization of rules and procedures.
- Fred Fiedler's contingency model focused on individual leadership.

Contingency Theory



- William Richard Scott describes contingency theory as: "The best way to organize depends on the **nature of the environment** to which the organisation must relate".
- Other researchers including Paul Lawrence, Jay Lorsch, and James D. Thompson were complementing to this statement and were more interested in the impact of contingency factors on **organizational structure**.
- Their structural contingency theory was the dominant paradigm of organizational structural theories for most of the 1970s.
- A major empirical test was furnished by Johannes M Pennings who examined the interaction between environmental uncertainty, organization structure and various aspects of performance.
- There are also contingency theories that relate to **decision making** (Vroom and Yetton, 1973).

Important Ideas of Contingency Theory



- There is no universal or one best way to manage
- The design of an organization and its subsystems must 'fit' with the environment
- Effective organizations not only have a proper 'fit' with the environment but also between its subsystems.
- The needs of an organization are better satisfied when it is properly designed and the management style is appropriate both to the tasks undertaken and the nature of the work group.

Limitations of Contingency Theory



- It is a complex Theory, which may not be applied easily.
- It has not given any meaningful solutions to different managerial problems.
- It can not be put to empirical testing in a concrete way.
- It suggests a reactive strategy in coping with environmental complexity.
- It is not a complete theory.